COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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ARIZONA SETTLEMENT ENDS PROBE OF SIX WALL STREET FIRMS

PHOENIX – The Arizona Corporation Commission approved the state's participation in multimillion dollar settlements with six more Wall Street brokerage firms. The decision follows a lengthy investigation by state and federal agencies into the firms' stock-research abuses and initial public offering distribution practices. A total of $2.17 million will be paid into the Arizona State General Fund as a result of the Commission order approving the settlements. An additional $197,660 is earmarked for investor education throughout the state.

Arizona approved settlements with the following brokerage firms:

- Bear, Stearns & Co., Inc. ("Bear Stearns")
- Goldman Sachs & Co. ("Goldman")
- Lehman Brothers, Inc. ("Lehman")
- J.P. Morgan Securities, Inc. ("J.P. Morgan")
- Morgan Stanley & Co., Inc. ("Morgan Stanley")
- U.S. Bancorp Piper Jaffray, Inc. ("Piper Jaffray")

Before the settlements, some of Wall Street's biggest brokerage houses faced charges that they encouraged in-house research analysts to publish inflated ratings on certain stocks to secure investment banking business. In addition, some of these brokerage firms hired other firms to issue research and ratings on stock underwritten by the paying brokerage firm without disclosing these payments to the public. This activity resulted in ratings that were neither objective nor independent, even though the ratings were represented as such.

The settlements mirror the one forged with UBS Warburg, LLC and UBS Paine Webber, LLC, approved by the Commission in March of 2003. Similar to the other settlements, the six firms agreed to implement major changes with respect to stock research practices. In part, these changes include:

- Disclosing on research reports any investment banking compensation the firm received or expects to receive from the companies covered,
- Separating compensation for research analysts from the firm's investment banking business,
- Prohibiting investment bankers from otherwise influencing analysts' compensation,
- Establishing a Research Recommendations Committee to ensure the veracity of stock research recommendations,
- Prohibiting all employees from promising or implying that a recommendation would be made in exchange for the firm being awarded an investment banking transaction, and
- Designating a compliance monitor who will ensure compliance of the agreement and be available to research analysts who feel undue influence or pressure from any source.

A portion of the fines will be placed in an Investor Education Fund to be held at a non-profit organization known as the Investor Protection Trust (IPT). The funds will be used to develop and promote programs that will equip people with the knowledge and skills to make informed investment decisions.

Approval of the agreements concludes Arizona's investigation and any action the Commission could initiate against the six brokerage firms in connection with their past research practices. The agreements and the Commission's orders, however, do not preclude any investor's private litigation against these firms.

Settlements or payments arising from securities law violations are directed by law to the Arizona General Fund and do not remain with the Arizona Corporation Commission. The Commission's funding is appropriated through the normal state budget process.

The Commissioners will later rule on settlements involving Credit Suisse First Boston, LLC and Citigroup Global Markets Inc., formerly known as Salomon Smith Barney.

Quotes and commentary from Commissioners voting in favor of the settlements

Chairman Marc Spitzer: "There seems to be a great gulf between what Wall Street thinks is appropriate and what investors have the right to expect from the investment banking community. First and foremost, stock recommendations should not be tainted by efforts to obtain investment banking fees. You cannot serve two masters – and that's what they were trying to do. You can't serve the investing public while also trying to please your new client or hopeful new client."

Commissioner Bill Mundell: "I am concerned that some of the investment firms on Wall Street just don't get it. Every day we hear new allegations. We didn't negotiate the fine amounts and, personally, I believe the fines should have been significantly higher. Having said that, I am voting in favor of these agreements because I think the lasting value here lies in the structural changes designed to protect small investors."

Commissioner Mike Gleason: "These settlements require the brokerage firms to reform their ways. I hope this is a giant step toward restoring investors' confidence after the activities of the past few years. There is no escaping the fact that these firms and their past activity undermined investors' confidence and that's had a devastating effect on the financial markets."

Commissioner Jeff Hatch-Miller: "There is a lot of lobbying going on in Washington aimed at stripping the states of authority to protect investors from unscrupulous and fraudulent activities. These cases should send a signal that more protections are necessary, not fewer. It is my hope that these reforms are carried out in good faith so investors can make wise decisions based on factual analysis."

Comments from commissioners who voted against the settlement

Commissioner Jim Irvin: "While the order had many good and positive points, I don't believe it went far enough. The companies profited and the real victims have been shortchanged. Sure, corrective action is warranted but I think the efforts would be better directed at making the consumers whole. Therefore, I oppose these settlements."

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